TransAlta

TransAlta Power, L.P.

2002 Annual Report

2002 highlights

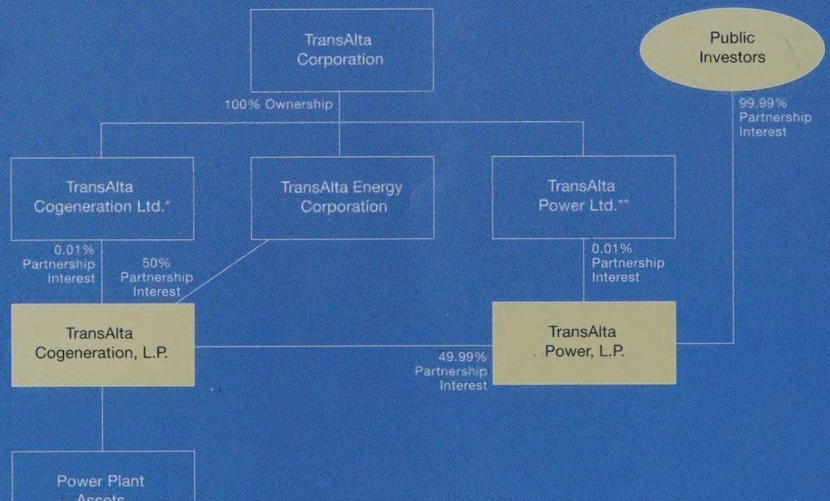
Increased distributions ▶ Increased cash distributions to \$0.7430 per unit in 2002 from \$0.7345 per unit in 2001, due to stronger earnings.

Tax-deferred distributions ▶ Cash distributions continued to provide a fully tax-deferred return for unitholders in 2002. This is expected to continue through 2004.

Increased net income ▶ In 2002, net income increased significantly due to a full year of operation of the Fort Saskatchewan plant, decreased gas costs and higher revenues from the Ontario plants.

Performance ▶ The Mississauga plant went three years without an engine change and experienced its second-best production year.
▶ None of the four plants had safety incidents in 2002.

partnership structure



* general partner of TransAlta Cogeneration, L.P.
** general partner of TransAlta Power, L.P.

The structure of TransAlta Power, L.P. is designed to align the interests of TransAlta Corporation and TransAlta Power, L.P. unitholders.

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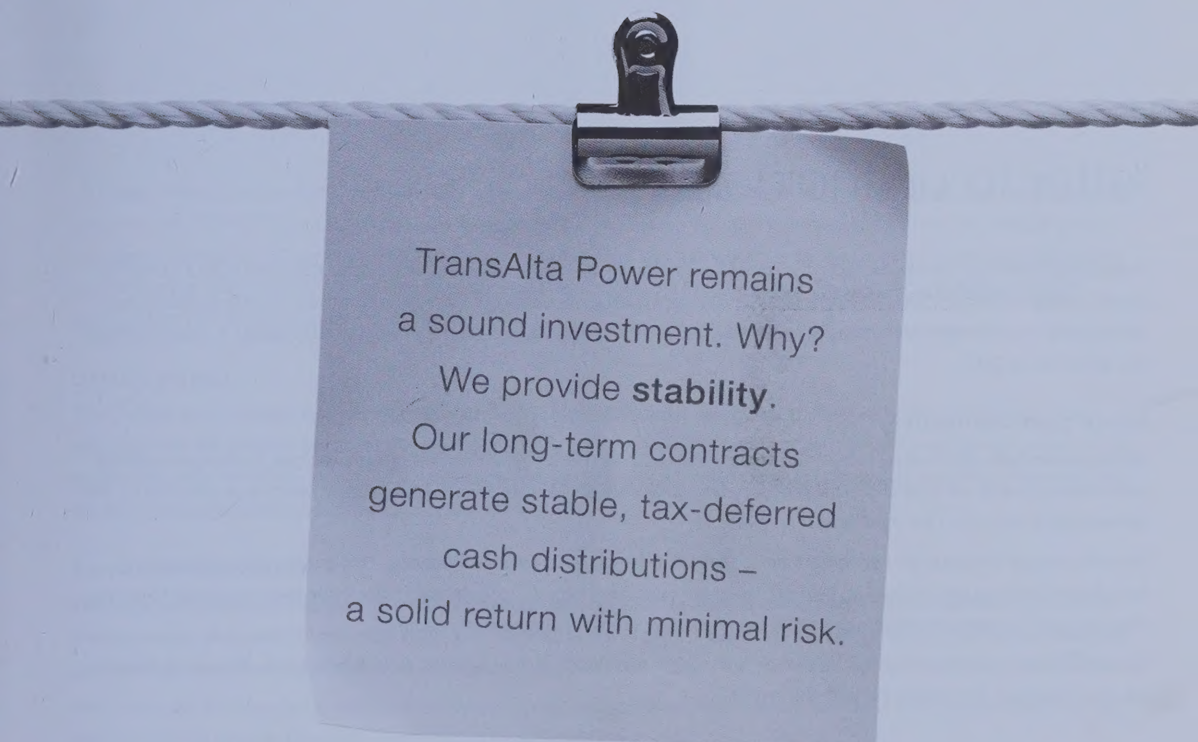


Corporate Profile TransAlta Power, L.P. (TransAlta Power) owns a 49.99 per cent interest in TransAlta Cogeneration, L.P. (TA Cogen), which owns three Ontario cogeneration facilities and a 60 per cent interest in the Fort Saskatchewan, Alberta cogeneration facility. TransAlta Energy Corporation (TEC), a wholly owned subsidiary of TransAlta Corporation (TAC), owns the remaining 50.01 per cent interest in TA Cogen and is responsible for the operation and maintenance of the plants. The Ontario plants have a total generating capacity of 244 megawatts (MW) of electric power. Electricity from the plants is sold to Ontario Electricity Financial Corporation (OEFC) under long-term contracts; steam and other thermal energy produced is supplied to manufacturing plants and other facilities. The Fort Saskatchewan plant has a total generating capacity of 118 MW. Electricity and steam from this plant are sold to Dow Chemical Canada Inc. (Dow Chemical) under a long-term contract.

letter to unitholders

Despite the volatility in the electric industry, TransAlta Power, with its low risk profile of long-term contracted output, remained a solid, stable investment for unitholders in 2002. We continued to focus on our two main objectives: providing stable cash distributions to unitholders and maximizing plant availability. We're pleased to report that we were successful in meeting those key objectives in 2002.

Stable Cash Distributions

We increased cash distributions to $0.7430 per unit from $0.7345 per unit in 2001. This growth was due to stronger earnings performance, mainly as a result of a full year of operation of the Fort Saskatchewan, Alberta plant, which was acquired by the partnership at the end of the third quarter of 2001.

We will continue to pursue growth opportunities that will allow us to increase distributions. This growth will come primarily from assets that: are part of the TAC fleet of plants; are consistent with our current risk profile; have been in service for more than one year; provide predictable cash flow; and have output that is contractually secure.

TransAlta Power was also an attractive investment in 2002 due to its fully tax-deferred cash distributions. This tax-deferred return is expected to continue through the end of 2004.

Maximum Availability

Our second key objective, maximizing plant availability (the percentage of time during a year that a generating unit is capable of generating electricity), drives cash flow and is critical to meeting our contractual requirements. In 2002, overall plant availability remained high at 97 per cent. This was down from 98 per cent in 2001 due to outages at the Ottawa and Windsor plants, but significantly above the 75 to 80 per cent minimum availability required in our contracts.

Minimal risk

While gas prices in North America doubled from January to December last year, the partnership was exposed to minimal risk. In Alberta, the gas supply and transportation arrangements at our Fort Saskatchewan plant are the responsibility of Dow Chemical, the company that buys the plant's power and steam output. In Ontario, all of our plants have long-term gas supply arrangements in place that include both a floor (minimum) and a ceiling (maximum) price. In order to stabilize distributions,

TA Cogen entered into an agreement with TEC in December 2000 to fix the cost of gas for the Ottawa and Mississauga plants until the end of 2005. Prior to that date, we will continue to explore alternatives to minimize gas commodity costs at those two plants. Similarly, TEC agreed to provide TA Cogen with a fixed gas delivery price for the Ottawa and Mississauga plants until November 2007, avoiding exposure to escalating costs of pipeline transportation. The existing gas transportation arrangements for Windsor remain in place until 2006.

Ontario Market

The Ontario power market was officially deregulated in May 2002. Under deregulation, there is the potential to sell excess capacity from the Windsor plant into the market. We have approached OEFC and we are currently negotiating the sale of this excess capacity with them. In late 2002, legislation was passed capping retail market prices at $43 per MWh. However, this decision has no impact on our three Ontario contracts.

Corporate Governance

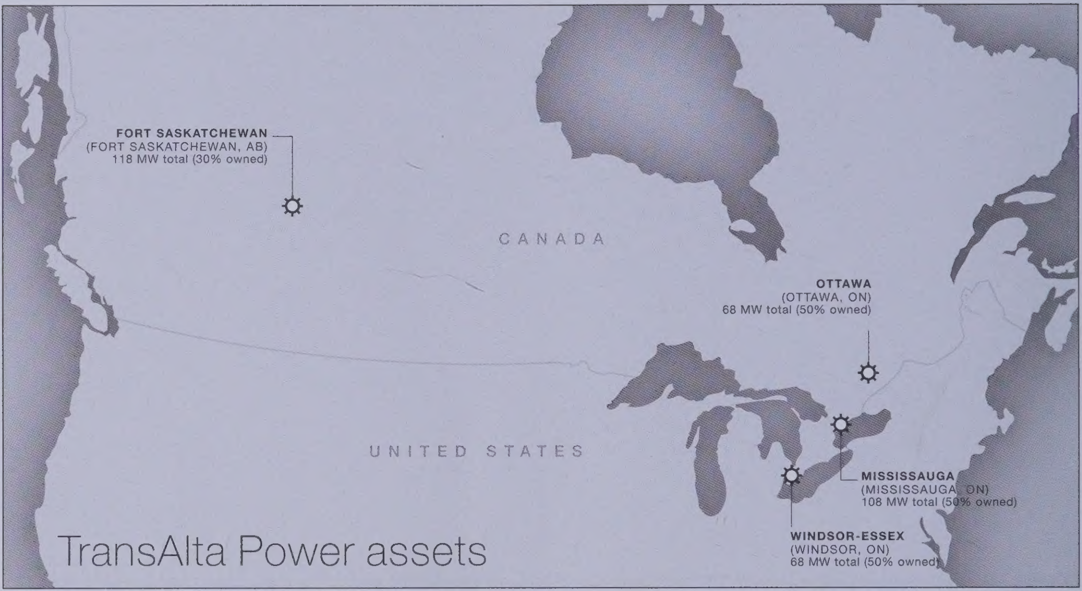
We continue to believe in the value of strong corporate governance. Our independent directors comprise the audit committee and review all aspects of the relationship with TransAlta. In this annual report, we've highlighted our performance against guidelines adopted by the Toronto Stock Exchange.

We're pleased with the partnership's performance in 2002, with another year of stable cash flow and strong operations. We plan to continue to provide a solid, steady return to our unitholders.

T. Iain Ronald
CHAIR OF THE BOARD

Ian A. Bourne
PRESIDENT & DIRECTOR

review of operations



Background

During the late 1980s, a number of provincial governments and publicly owned utilities established programs to actively seek the purchase of electricity from independent power producers. These programs were prompted by environmental concerns, rapid growth in anticipated electricity demand, rising electricity rates, new technologies and growing international competition.

The programs contemplated that the electricity produced by independent power producers would be supplied under long-term power purchase contracts using rates that mirrored the projected long-term value of the electricity to the power system. At the same time, the steam from those power plants with cogeneration capability would be sold to industrial or commercial operators.

This would improve the power plants' efficiency of the fuel used to generate electricity and reduce overall costs. The power plants owned and operated by TA Cogen operate within such programs. The three Ontario cogeneration plants are under contract with OEFC for the electricity produced and they provide steam to the hosts of the various plants. The Fort Saskatchewan, Alberta cogeneration plant provides both power and steam to the Dow Chemical facility under a contract similar to that described above.

Partnership Structure

TransAlta Power owns a 49.99 per cent interest in TA Cogen, which wholly owns three Ontario cogeneration facilities and a 60 per cent interest in the Fort Saskatchewan cogeneration plant. TAC owns 50.01 per cent of TA Cogen through two wholly owned subsidiaries: TEC and TransAlta Cogeneration Ltd. TEC is responsible for the operation and maintenance of the plants.

Throughout this report, references to TransAlta Power represent this 49.99 per cent ownership interest in the power plant assets. The partnership structure can be found on the inside front cover of this annual report.

What Is Cogeneration?

The term cogeneration refers to the simultaneous production of power and useful heat from one fuel source. In a typical cogeneration plant, a natural gas-fired turbine generates electrical power and the heat produced is recovered and used to produce steam. The steam is used for an industrial process or, in the case of combined-cycle plants, to generate additional electricity through a steam turbine.

Power Plant Assets

Fort Saskatchewan

On Sept. 30, 2001, TEC sold its 60 per cent interest in the 118 MW Fort Saskatchewan combined-cycle cogeneration facility to TA Cogen for $70.0 million. The Fort Saskatchewan plant, a joint venture with Air Liquide Canada Inc., provides electricity and steam to Dow Chemical's facility in Fort Saskatchewan.

On June 30, 2017, TEC has the option to purchase the Fort Saskatchewan plant from TA Cogen at the then fair market value as determined by independent valuators. On July 31, 2017, if TEC does not exercise the option, TA Cogen has the option to sell the Fort Saskatchewan plant to TEC at a price equal to the book value. If neither option is exercised, TA Cogen is obligated, at TEC's expense, to use reasonable commercial efforts to sell the Fort Saskatchewan plant on or before Dec. 18, 2018.

The Fort Saskatchewan plant is located within the Dow Chemical site in Fort Saskatchewan, Alberta. The facility is designed to produce 118 MW and supplies the electricity requirements of the Dow Chemical facility. Dow Chemical has granted a licence and agreed to lease the lands where the Fort Saskatchewan plant is located for an initial term of 20 years that expires on Nov. 30, 2019.

Megawatts	118
Electricity sales	Dow Chemical until 2019
Steam sales	Dow Chemical until 2019
Gas supply	Dow Chemical until 2019

Mississauga

The Mississauga plant is a combined-cycle cogeneration facility designed to produce 108 MW of electrical energy. The 108 MW are contracted under a firm supply contract to OEFC. The plant also supplies steam, compressed air, waste water treatment and deionized water to Boeing Canada Inc. The plant is located adjacent to the Boeing manufacturing facility near the Lester B. Pearson International Airport in Mississauga.

Megawatts	108
Electricity sales	OEFC under contract until 2017
Steam sales	Boeing Canada until 2013
Gas supply	Husky Energy until 2012

Ottawa

The Ottawa plant is a combined-cycle cogeneration facility designed to produce 68 MW of electrical energy. The 68 MW are contracted under a firm supply contract to OEFC. The Ottawa plant also supplies thermal energy to the member hospitals and treatment centres of the Ottawa Health Sciences Centre, National Defense Medical Centre and Perley Hospital.

Megawatts	68
Electricity sales	OEFC under contract until 2012
Steam sales	Ottawa Health Sciences Centre until 2013
	Perley Hospital until 2013
	National Defense Medical Centre until 2008
Gas supply	CanWest Gas Supply until 2007

Windsor-Essex

The Windsor plant is a combined-cycle cogeneration facility designed to produce 68 MW of electrical energy. Currently, 50 MW are contracted under a firm supply contract with OEFC. Deregulation of the Ontario market provides the opportunity to sell additional capacity into a competitive marketplace. The Windsor plant also provides steam to Chrysler Canada Ltd.'s assembly facility in Windsor.

Megawatts	68
Electricity sales	OEFC under contract until 2016
Steam sales	Chrysler Canada until 2016
Gas supply	Pioneer until 2014
	Mirant until 2011

partnership governance

The governance of the Partnership is the responsibility of the board of directors of the General Partner (the Board). The rights, authority and limitations on the General Partner are described in the Limited Partnership Agreement, as amended (the Partnership Agreement). Under the terms of a Management Agreement, the Partnership has retained TEC (the "Manager") to provide certain management, administrative and other services in connection with the Partnership.

As set out in the Partnership Agreement, the Board is to be comprised of not more than seven directors of which not less than three are to be independent and unrelated to TAC. During 2002, the Board was comprised of six directors.

The Board has plenary power for all activities of the General Partner unless specifically delegated to a committee of the Board or management. To fulfill its responsibilities with respect to the Partnership, the General Partner's Board has established an audit committee and, from time to time, a committee of independent directors. The combined work of the Board and these committees fulfills the fiduciary responsibility of the Board to foster the long-term success of the Partnership and maximize the partners' value.

The Partnership Agreement provides that the Board can function separately from the Manager and management, as a majority of independent directors must approve all material transactions including material agreements between the Partnership and TAC. The Board has accommodated this requirement through the establishment of an independent directors' committee, which approves all material transactions between the Partnership and TAC and any of TAC's affiliates or associates.

Both the Board and the independent directors' committee can approve the engagement of outside advisors. The engagement of advisors for the independent directors' committee is limited to advisors required for matters within their mandated responsibility.

As a publicly traded entity, the Partnership is required to disclose on an annual basis its alignment with a set of governance guidelines adopted by the Toronto Stock Exchange to assist organizations in assessing accountability to stakeholders. This information is found on the following pages.

Guideline 1 ▶

The Board should explicitly assume responsibility for stewardship of the corporation.

Yes ▶ The Board has responsibility for the overall stewardship of the Partnership, establishing the overall policies and standards of the Partnership in the operation of its businesses and reviewing and approving its strategic plans.

Guideline 1A ▶

The Board should specifically assume responsibility for the adoption of a strategic planning process.

Yes ▶ The Board has adopted a strategic planning process and meets during the year to review and approve management's strategic plan for the Partnership. Changes to that plan are considered when appropriate.

Guideline 1B ▶

The Board should specifically assume responsibility for the identification of principal business risks and implementation of risk management systems.

Yes ▶ The strategic plan process adopted by the Board also includes a review of significant risks to the Partnership. Management ensures that the Board is kept informed of any changes to these risks on a timely basis.

The audit committee reviews the Partnership's financial risks and reports to the Board on these matters on a quarterly basis. The Board also receives and reviews reports from management on health, safety and environmental issues affecting the Partnership.

Guideline 1C ▶

The Board should specifically assume responsibility for succession planning, including appointing, training and monitoring senior management.

Yes ▶ The Board believes that the management of the Partnership is key to its ongoing success. Under the terms of the Management Agreement, the Manager is responsible to provide management, administrative and other services to the Partnership, including such matters as may be requested by the General Partner from time to time.

Guideline 1D ▶

The Board should specifically assume responsibility for communications policy.

Yes ▶ The Board has put structures in place to ensure effective communications between the Partnership, its unitholders and the public. The Board, or the appropriate committee thereof, reviews the content of the Partnership's major communications to the investing public, including the quarterly and annual reports, and approves the annual information form and any prospectuses that may be issued. The disclosed information is released through mailings to unitholders, newswire services, the general media and the Partnership's section on TAC's Web site.

Guideline 1E ▶

The Board should specifically assume responsibility for the integrity of internal control and management information systems.

Yes ▶ The Partnership has retained the Manager to provide the Partnership with certain management, administrative and other services. Internal controls similar to those used by TAC are in place for the Partnership and these are monitored by the audit committee through reports from the Manager, the work of the external auditors and reports from the Manager's internal auditors.

Guideline 2 ▶

Majority of directors should be "unrelated" (independent from management and free from conflicts of interest).

No ▶ Under the terms of the Partnership Agreement, the General Partner has agreed that as long as it is an affiliate of TAC, its board of directors shall be comprised of not more than seven directors, of which not less than three shall be independent directors. Under the terms of the agreement, all transactions with TAC must be approved by the independent directors' committee as well as by the board of directors of the General Partner. The Board believes this is an appropriate policy for the Partnership.

Guideline 3 ▶

Disclose for each director whether he or she is related, and how that conclusion was reached and that the majority of directors are "outside" directors.

No ▶ The Board has six directors, two of whom are senior officers of TAC and one of whom, Mr. Dalgleish, is a former senior officer of TAC and counsel to a law firm which provides legal advice to TAC. These three individuals would be considered to be related directors. The remaining three directors are unrelated.

Guideline 4 ▶

Appoint a committee of outside directors responsible for appointment of new nominees and ongoing assessment of directors.

No ▶ At this time, given the small size of the Board, the Board itself has assumed the responsibility for assessing new nominees to the Board, as well as considering the Board performance on an ongoing basis.

Guideline 5 ▶

Implement a committee process for assessing the effectiveness of the Board, its committees and the contribution of individual directors.

Yes ▶ The board of directors itself is responsible for assessment of its performance.

Guideline 6 ▶

Provide orientation and education programs for new recruits to the Board.

Yes ▶ All directors are provided with orientation materials that include written information about the duties and obligations of directors of the Partnership and the business of the Partnership. Opportunities for meetings and discussions with senior management and other directors are also available. The details of the orientation of each new director will be tailored to that director's individual needs and areas of interest.

Guideline 7 ▶

Examine size of the Board, with a view to improving effective decision-making and, if appropriate, undertake a program to reduce the number of directors.

Yes ▶ The Partnership Agreement provides for the Board to be comprised of not more than seven directors, of which not less than three are to be independent. At this time the Board consists of six directors, and the Board believes this is an appropriate number for the business of the Partnership.

Statement of Governance Practices

Guideline 8 ▶

Review adequacy and form of compensation of directors to ensure compensation reflects risks and responsibilities.

Yes ▶ The Board reviews the compensation of the independent directors on an annual basis, taking into account such matters as time commitment, responsibility and compensation provided by comparable entities. Only the outside directors receive compensation from the Partnership for services to the Board or its committees.

Guideline 9 ▶

Committees should generally be composed of outside directors, a majority of which are unrelated.

Yes ▶ The Board believes that, as a matter of policy, there should be a majority of unrelated directors on its committees and the committees should be chaired by independent directors. The audit committee is comprised only of unrelated directors.

Guideline 10 ▶

Appoint a committee responsible for developing an approach to corporate governance issues.

No ▶ The board of directors itself has assumed the responsibility to undertake initiatives as are needed to ensure excellence in governance, although it is considering establishing a corporate governance and nominating committee to undertake certain of these functions.

Guideline 11 ▶

Define limits to management's responsibilities by developing position descriptions for the Board and CEO and approving corporate objectives for the CEO to meet.

Yes ▶ Under the Management Agreement, the Partnership has retained the Manager to provide management, administrative and other services to the Partnership. The Manager's senior officers all have position descriptions, limitations of authority and corporate objectives, which are reviewed annually.

Guideline 12 ▶

Establish procedures to enable the Board to function independently of management.

Yes ▶ The Partnership Agreement provides that the Board can function separately from the Manager and management of the General Partner, as a majority of independent directors must approve all material transactions or agreements between the Partnership and TAC or any of its affiliates, including the Manager.

Guideline 13 ▶

Establish an audit committee composed only of outside directors with specifically defined roles and responsibilities.

Yes ▶ The audit committee for the Partnership has defined roles and responsibilities as outlined in its terms of reference. The committee is comprised of three independent directors, none of whom are officers or employees of TAC or any of its subsidiaries or affiliates. In the view of the Board, this is appropriate.

Guideline 14 ▶

Implement a system to enable individual directors to engage outside advisors at the corporation's expense.

Yes ▶ Independent directors have the authority to retain consultants for themselves or the independent directors' committee where necessary and appropriate.

management's discussion & analysis

Management's discussion and analysis (MD&A) should be read in conjunction with the annual financial statements of TransAlta Power, L.P. (TransAlta Power or the company) and the consolidated financial statements of TransAlta Cogeneration, L.P. (TA Cogen) included in the annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All tabular amounts in the following discussion are in millions of Canadian dollars, unless otherwise noted.

Forward-Looking Statements

This report contains forward-looking statements, including statements regarding the business and anticipated financial performance of TransAlta Power and TA Cogen. These statements involve known and unknown risks and relate to future events, future financial performance and projected business results. In some cases, forward-looking statements can be identified by terms such as 'may', 'will', 'believe', 'expect', 'potential', 'enable', 'continue' or other comparable terminology. These forward-looking statements are subject to a number of uncertainties that may cause actual results to differ materially from those contemplated in the forward-looking statements. Some of the factors that could cause such differences include: legislative and regulatory developments that could affect revenues, costs, the speed and degree of competition entering the market; global capital markets activity; timing and extent of changes in prevailing commodity prices, interest rates, inflation levels and general economic conditions; results of financing efforts; changes in counterparty risk; and the impact of accounting policies issued by Canadian standard setters. See additional discussion under Risk Factors and Risk Management.

Overview

TransAlta Power's earnings result from its 49.99 per cent ownership interest in TA Cogen. The remaining 50.01 per cent of TA Cogen is owned by TransAlta Corporation (TAC) through two wholly owned subsidiaries: TransAlta Energy Corporation (TEC) (50.0 per cent) and TransAlta Cogeneration Ltd. (0.01 per cent). TAC has the obligation to purchase for either cash or TAC shares (at TAC's option) all of TransAlta Power's interest in TA Cogen on Dec. 31, 2018 at fair market value. Three natural gas-fired cogeneration assets located in Ontario are owned by TA Cogen and operated by TEC. They consist of the 108 megawatt (MW) Mississauga plant, the 68 MW Ottawa plant, and the 68 MW Windsor-Essex plant.

On Sept. 30, 2001, TA Cogen acquired a 60 per cent interest in a fourth natural gas-fired cogeneration plant, a 118 MW facility in Fort Saskatchewan, Alberta, from TEC for total consideration of $70.0 million, comprised of $35.0 million of TA Cogen

partnership units and a $35.0 million promissory note. The acquisition was funded through the issuance of partnership units to TransAlta Power and TEC in proportion to their respective ownership interests in TA Cogen. TransAlta Power issued 4.5 million partnership units at a price of $8.50 per unit, realizing net proceeds of $36.1 million to fund the acquisition of the additional partnership units of TA Cogen. On June 30, 2017, TEC has the option to purchase the Fort Saskatchewan plant from TA Cogen at the then fair market value as determined by independent valuators. On July 31, 2017, if TEC does not exercise the option, TA Cogen has the option to sell the Fort Saskatchewan plant to TEC at a price equal to the book value. If neither option is exercised, TA Cogen is obligated, at TEC's expense, to use reasonable commercial efforts to sell the Fort Saskatchewan plant on or before Dec. 18, 2018.

TA Cogen distributes cash flow to TransAlta Power and TEC in amounts proportionate to their ownership interests in TA Cogen. TransAlta Power, in turn, pays cash distributions to its unitholders. TA Cogen's operating results are discussed to provide context for TransAlta Power's results.

TransAlta Power now measures capacity as net maximum capacity, compared to nameplate capacity which had been previously used. The change was made to better reflect the actual capacities of assets and to be more consistent with industry standards. Capacity figures have been adjusted to reflect the new method of measurement.

Objectives and Key Performance Indicators

- **Stable cash distributions.** The company's primary objective is to provide stable cash distributions to unitholders. During 2002, cash distributions increased as a result of the strong performance of TA Cogen's electricity generating assets.
- **Maximize plant availability.** Availability is a key performance indicator for TransAlta Power and drives cash flows. TA Cogen delivers the majority of its output under long-term contracts, therefore availability is critical to meeting these contractual requirements. Availability for the year ended Dec. 31, 2002 was 97 per cent, compared to 98 per cent in 2001.

Results of Operations

A. TransAlta Power

Summary of Results

Following a review of critical accounting policies during the fourth quarter of 2002, TA Cogen changed its accounting policy with respect to levelization payments. The change was applied retroactively, with restatement of prior periods. As a result, prior period amounts of TransAlta Power have also been retroactively restated (see *Note 2* to the financial statements).

	2002	2001
Net income	**$ 18.7**	$ 13.8
Cash distributions declared	**$ 25.3**	$ 22.8
Cash distributions declared per unit	**$ 0.7430**	$ 0.7345
Weighted average number of units outstanding	**33,988**	30,634

Net income increased by $4.9 million over 2001 as a result of higher equity earnings from TA Cogen. The 2002 results for TA Cogen include a full year of operations from the Fort Saskatchewan plant, decreased gas transportation costs as a result of a regulatory decision, and higher power revenues from the Ontario plants.

Cash distributions increased by $2.5 million in 2002 as a result of higher cash distributions from TA Cogen due to stronger earnings and cash flow.

Since 1998, cash distributions have been fully tax-deferred and are expected to continue to be so through 2004. The effect of the tax deferral is that unitholders are not required to pay income tax on the distributions in the year of receipt.

Cash available for distribution and cash available for distribution per unit are presented in the financial statements; however, they should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with Canadian GAAP as an indicator of TransAlta Power's performance or liquidity. Cash available for distribution is calculated from net income in TransAlta Power's and TA Cogen's financial statements under Statements of Distributable Cash, and is provided as an indication of cash available for distribution to unitholders.

Equity Income from TA Cogen

	2002	2001
Equity income	**$ 19.0**	$ 14.1

Equity income represents TransAlta Power's 49.99 per cent interest in TA Cogen, the operating limited partnership. The increase in 2002 over 2001 reflects the increased earnings in TA Cogen, resulting primarily from the inclusion of a full year of operations from the Fort Saskatchewan plant, decreased gas transportation costs and higher power revenues from the Ontario plants.

Management and Administration Expenses

	2002	2001
Management and administration	**$ 0.3**	$ 0.3

Management and administration expenses in 2002 were consistent with 2001. TEC provides management services to TransAlta Power under the terms and conditions set out in a management agreement. Effective Jan.1, 2000, the management agreement was amended such that TEC will not be paid a management fee until TransAlta Power's annual distribution exceeds $0.75 per unit. This contingent obligation will only become payable in future years, when TransAlta Power's distributable cash per unit after providing for the management fee is greater than $0.75. No management fees were paid to TEC in 2001 or 2002. These contingent management fees have not been accrued in the financial statements, as it is currently not likely that TransAlta Power's cash distributions will exceed $0.75 per unit. Unpaid contingent deferred management fees owing to TEC at Dec. 31, 2002 were $0.9 million from TransAlta Power and $5.1 million from TA Cogen.

B. TA Cogen

Summary of Results

Following a review of critical accounting policies during the fourth quarter of 2002, TA Cogen changed its accounting policy with respect to levelization payments. A levelization agreement was entered into with TEC for the Windsor plant and has a life equal to the power purchase agreement (PPA). These levelization amounts were previously recorded in TA Cogen's electrical revenues when received from TEC to levelize the escalating revenue stream resulting from the rate structure in the monthly capacity payment under the terms of the PPA. Commencing in the seventh year of the agreement (2003), the levelization payments reverse and TA Cogen begins to repay the levelization payments and interest to TEC. During the fourth quarter of 2002, TA Cogen determined these levelization payments should be accounted for as a financial liability. The levelization liability bears interest at the Royal Bank of Canada prime rate plus one per cent. This change in accounting policy has been accounted for retroactively, with restatement of prior period financial results. The impact of the restatement is described in *Note 2* to the TA Cogen consolidated financial statements.

	2002	2001
Revenues	**$ 154.5**	$ 144.1
Net income	**$ 38.0**	$ 28.1
Cash distributions declared	**$ 51.3**	$ 45.1

Revenue increased by $10.4 million and net income increased by $9.9 million in 2002. The 2002 results reflect higher incremental revenues from the addition of the Fort Saskatchewan plant. In addition, electrical revenues from the Ontario plants increased due to contractual adjustments and gas transportation costs decreased as a result of a regulatory decision. This was partially offset by increased depreciation and operating and maintenance expenses resulting from a full year of operations from the Fort Saskatchewan plant.

Cash distributions declared increased by $6.2 million in 2002, reflecting increased net income and higher non-cash depreciation, partially offset by the repayment of long-term debt and annual reserves for planned major maintenance.

Revenues

	2002	2001
Electrical	**$ 94.6**	$ 92.5
Capacity	**49.7**	42.9
Thermal and other	**10.2**	8.7
Total	**$ 154.5**	$ 144.1
Availability	**97%**	98%
Total production (GWh)	**2,375**	1,878
Electrical production (GWh) [1]	**1,778**	1,716
Electrical revenue/MWh [1,2]	**$ 53.21**	$ 51.10

1 *Ontario plants only, as the Fort Saskatchewan plant earns capacity, thermal and other revenues.*

2 *Calculation for the year ended Dec. 31, 2001 includes 94.0 GWh of curtailed production received from TEC pursuant to the terms of the 61-month fixed-for-floating gas swap agreement.*

Revenues under long-term power sales contracts consist of capacity payments for plant availability and energy payments for the generation of electricity. Thermal and other revenue include payments for steam and ancillary products and services. Electrical revenues also include curtailment revenue. Curtailment revenue arises under the terms of a 61-month fixed-for-floating gas swap agreement with TEC to fix natural gas prices, with price escalation, for the gas supplied to the Ottawa and Mississauga plants starting Dec. 1, 2000. As consideration, TA Cogen transferred the right to incremental revenues associated with curtailed off-peak electrical production and higher gas sales to TEC for the term of the swap. In the event of a plant curtailment during off-peak hours to sell natural gas, TA Cogen will earn operating income equivalent to that which would have been earned had the plant generated electricity. In the case of curtailment during on-peak hours, TA Cogen will earn the incremental revenues from the curtailment less a 35 per cent management fee paid to TEC. The agreement was entered into as a result of volatility in the natural gas markets, and was to stabilize cash distributions during the term of the agreement.

All of TA Cogen's electricity sales are earned under long-term PPAs with Ontario Electricity Financial Corporation. The PPAs have remaining terms ranging from nine to 16 years. Revenues are seasonal with higher electricity rates and production volumes in the winter months. The Fort Saskatchewan plant earns no electrical revenue as Dow Chemical purchases the entire capacity of the plant by way of capacity payments. Total revenue for the year ended Dec. 31, 2002 increased by 7.2 per cent to $154.5 million.

Electrical revenue for the year was $94.6 million, $2.1 million higher than in 2001, reflecting contractual price adjustments under the PPAs and increased production at the Ontario plants. Production at the Ontario plants increased by 62 GWh or 3.6 per cent over 2001. Included in electrical revenues for 2001 is $3.7 million received from TEC for curtailed electrical production in exchange for gas sales pursuant to the fixed-for-floating gas swap agreement.

Capacity revenue for 2002 increased by $6.8 million over 2001, primarily due to a full year of operations from the Fort Saskatchewan plant.

Thermal and other revenue increased by $1.5 million in 2002, primarily as a result of a full year of production from the Fort Saskatchewan plant.

As the Ontario plants' output and the Fort Saskatchewan plant's capacity are contracted under PPAs, availability is critical to meeting these contracted obligations. Availability was 97 per cent for 2002 and 98 per cent in 2001. The decrease was a result of unplanned outages at the Ontario plants.

Cost of Gas Expense

	2002	2001
Cost of gas	**$ 68.0**	$ 71.5
Cost of gas used for generation	**$ 68.0**	$ 68.7
Cost of gas used for generation/MWh	**$ 38.25**	$ 40.03

The total cost of gas includes costs incurred for both gas used for generation and gas sold to the spot market on behalf of TEC under the terms of the gas swap agreement. The cost of gas is comprised of both commodity and transportation costs for the Ontario plants. Natural gas used by the Fort Saskatchewan plant is provided by Dow Chemical, based on contractual arrangements. The decreased cost of gas per MWh for 2002 reflects decreased transportation costs of $3.4 million as a result of a one-time regulatory decision in 2002, of which $2.0 million related to 2001.

TA Cogen entered into a transportation swap agreement with a wholly owned subsidiary of TEC to fix gas transportation costs for the Ottawa and Mississauga plants from November 2002 to November 2007. The notional gas volume in the transaction was the total delivered fuel contracted for the plants. The purpose of the agreement was to reduce TA Cogen's exposure to fluctuating pipeline transportation rates in order to stabilize cash distributions. Exchange amounts are based on market values of the contract.

Gas commodity costs increased by approximately 4.5 per cent over 2001, due to the escalation of the prices for the Ottawa and Mississauga plants under the terms of the fixed-for-floating swap agreement with TEC and escalation of the ceiling price in the Windsor contract.

In January 2006, the fixed-for-floating swap agreement expires and TA Cogen will be subject to pricing in the existing long-term gas supply contracts, which expire in 2007 and 2012 for the Ottawa and Mississauga plants, respectively. The pricing terms for these long-term contracts collar, or limit, gas prices within an escalating range. If the contract price is above the ceiling or below the floor, the difference between the contract price and the floor or ceiling price is accumulated in a "gas bank" account. The actual price paid by TA Cogen is the contract price increased or reduced by the balance in the gas bank account to the

maximum or minimum of the ceiling or floor price, respectively. No interest is applied to the gas bank account balances and any remaining balance at the end of the contract is neither paid nor collected. The considerable increase in natural gas market prices during 2002 increased the balance of TA Cogen's "costs" accumulated in excess of the ceiling price for the Windsor and Mississauga plants and decreased the balance of TA Cogen's "savings" accumulated below the floor price for the Ottawa plant. In January 2006, on the expiry of the fixed-for-floating swap agreement and with a continuation of current natural gas market prices, it is expected that the Mississauga and Ottawa contract prices would increase to the ceiling price.

Depreciation Expense

	2002	2001
Depreciation	**$ 27.5**	$ 25.6

The increase in depreciation in 2002 was primarily the result of the addition of the Fort Saskatchewan plant.

Operating and Maintenance Expenses

	2002	2001
Operating and maintenance	**$ 16.1**	$ 13.5

Operating and maintenance (O&M) expenses differ from longer-term major maintenance costs. O&M expenses include short-term maintenance, external services, salaries, wages and benefits, materials and supplies, insurance premiums, property taxes and utility costs. These costs are relatively independent of production volumes and seasonality.

O&M expenses for 2002 increased by $2.6 million over 2001, primarily as a result the addition of the Fort Saskatchewan plant and unplanned outages during the year.

Net Interest Expense

	2002	2001
Net interest expense	**$ 4.9**	$ 5.3

Decreased net interest expense compared to 2001 reflects the reduction of long-term debt during the period and reduced interest expense on the levelization balance due to TEC as a result of reduced interest rates.

Outlook

On the basis of current assets in service and operations, cash distributions in 2003 are expected to be similar to those for 2002, therefore no management fees are expected to be paid by TransAlta Power or TA Cogen to TEC in 2003. Distributions are expected to be tax-deferred to the unitholders through 2004.

Total revenue for 2003 is expected to remain at a level consistent with 2002. Increased power revenues from rate escalations in the PPAs are expected to be offset by reduced thermal and other revenue due to lower demand from the industrial hosts.

Gas commodity costs are expected to increase in 2003, as a result of escalation of the ceiling price of the Windsor gas supply contract. The gas commodity costs for the Ottawa and Mississauga plants will escalate as a result of the swap agreement with TEC.

Gas transportation costs are expected to increase in 2003 as a result of regulatory filings by the pipeline utilities in 2002. In late 2002, the majority of the transportation arrangements with TransCanada PipeLines Limited (TCPL) expired. To mitigate the risk of increasing gas transportation costs, TA Cogen entered into swap arrangements with a wholly owned subsidiary of TEC to fix transportation costs for the Ottawa and Mississauga plants. Transportation arrangements for the Windsor plant remain with TCPL until Nov. 1, 2006.

The Fort Saskatchewan plant has no exposure to movements in gas commodity or transportation costs as the customer supplies all gas necessary for use in the plant.

Total depreciation expense for 2003 is expected to increase due the amortization of major maintenance projects in 2002 and 2003.

Total O&M expenses for 2003 are expected to increase due to increases in property taxes, labour costs and increased maintenance projects to sustain availability.

Net interest expense for 2003 is expected to remain consistent with 2002, as decreased interest on long-term debt will be offset by interest on the levelization account balance.

Liquidity and Capital Resources

TAC provides TransAlta Power with a $2.9 million financing arrangement for the purchase of partnership units under the normal course issuer bid program (NCIB).

TEC provides TA Cogen with a $20.0 million credit facility to finance fluctuations in working capital, plant maintenance and capital expenditures in excess of the reserves held by TA Cogen. At Dec. 31, 2002, the balance owed under this facility was $11.9 million (2001 – $17.5 million). To the extent that funding is required for significant maintenance, expansion projects or asset acquisitions, the expenditures will be funded under the credit facility provided by TEC or through the issuance of additional units to the public.

The acquisition of the Fort Saskatchewan plant by TA Cogen on Sept. 30, 2001 was funded through the issuance of partnership units to TEC and cash consideration of $35.0 million, which was funded by the issuance of partnership units to TransAlta Power. TransAlta Power issued 4.5 million partnership units at a price of $8.50 per unit, realizing net proceeds of $36.1 million to fund the acquisition of additional partnership units of TA Cogen.

Under the terms of the NCIB that expired on April 11, 2002, no units were repurchased. The NCIB allowed for the purchase for cancellation of up to 2.96 million partnership units. Under an NCIB that expired on April 4, 2001, TransAlta Power purchased and cancelled 112,300 partnership units.

On April 10, 2002, TransAlta Power announced its intention to continue purchasing partnership units. Under the terms of the new NCIB, TransAlta Power may purchase up to 350,000 partnership units representing approximately one per cent of TransAlta Power's public float issued and outstanding at March 31, 2002. The NCIB will expire on the earlier of April 11, 2003 or the date on which TransAlta Power completes the purchase of the 350,000 partnership units. Financing for the purchases under the NCIB will continue to be obtained through a loan based on commercial terms from TEC. As of Dec. 31, 2002, no units had been repurchased under this NCIB.

Statements of Cash Flows

	2002	2001
Cash at beginning of year	**$ 1.1**	$ 0.4
Operating activities	**(0.6)**	(0.1)
Investing activities	**25.6**	(8.7)
Financing activities	**(25.9)**	9.5
Cash at end of year	**$ 0.2**	$ 1.1

TransAlta Power's cash balance decreased by $0.9 million for the year ended Dec. 31, 2002, compared to an increase of $0.7 million in 2001.

Cash used in operating activities for 2002 was $0.6 million, compared to cash used of $0.1 million in 2001. The increase was due to greater working capital requirements.

Cash provided by investing activities for 2002 was $25.6 million and consisted of distributions received from TA Cogen. This was $34.3 million higher than the $8.7 million used in 2001, which was comprised of distributions received from TA Cogen, offset by a further $35.0 million investment in TA Cogen related to the acquisition of the Fort Saskatchewan plant.

Cash used in financing activities for 2002 was $25.9 million and consisted primarily of distributions paid to unitholders. This was $35.4 million higher than the $9.5 million provided from financing activities in 2001, which was comprised of distributions paid to unitholders, offset by net proceeds from the issuance of partnership units of $36.1 million.

Risk Factors and Risk Management

TEC provides risk management services to TransAlta Power and TA Cogen as part of the management services agreement. The audit committee of the board of directors of TransAlta Power oversees company-wide risk management through review of TransAlta Power's overall business risks. The following addresses some risk factors, but not all, that could affect TransAlta Power's future results.

Operational Risk

The operational performance of the power plants is the primary driver of the financial results. The power plants have been designed to operate continuously except during planned and unplanned outages. TA Cogen's comprehensive plant maintenance program and regular turnarounds are designed to minimize down time and maximize operating results. This program includes participation in a lease pool for the gas turbines that minimizes the possibility of an extended down time by having replacement engines available on relatively short notice.

Restructuring of the Ontario Electricity Market

Regulatory and political risks exist in the jurisdictions in which TA Cogen operates. TA Cogen manages these risks by working with regulators and other stakeholders to resolve issues as fairly and expeditiously as possible. Minor modifications to TA Cogen's PPAs, such as the negotiation of suitable replacements for those indices that have ceased to exist as a result of the restructuring of the electricity sector and name change references, are expected to be completed in 2003 to reflect the new electricity market in Ontario. Since deregulation, legislation was passed in Ontario in late 2002 capping retail market prices at $43 per MWh. However, this decision has no impact on TA Cogen as output is contracted under the PPAs.

Commodity Price Risk

TA Cogen has exposure to movements in certain commodity prices, including natural gas commodity prices and transportation costs. TA Cogen has mitigated exposure to natural gas commodity prices through long-term gas supply contracts and a 61-month fixed-for-floating swap with TEC, which fixes, with escalation, the price to be paid for gas for the Mississauga and Ottawa plants. In January 2006, the Mississauga and Ottawa plants will be subject to the pricing in the underlying long-term gas contracts. Gas transportation costs are dictated by long-term contracts subject to rates set through a regulatory process. In late 2002, the majority of the transportation arrangements with TCPL expired. As a result, TA Cogen has entered into fixed price swap arrangements with a wholly owned subsidiary of TEC to fix transportation costs for the Ottawa and Mississauga plants for the period November 2002 to November 2007. TA Cogen continues to actively explore options to minimize the long-term cost of gas.

Credit Risk

TA Cogen actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts.

Interest Rate Exposure

TA Cogen has exposure to movements in interest rates and manages this exposure by minimizing the amount of debt subject to floating interest rates.

Environmental, Health and Safety Risk

TA Cogen's approach is to continually improve the management of operational risks in the areas of environment, health and safety while developing mechanisms to manage future risks. These programs are integrated into the operations and management systems of the company. They are designed to mitigate the potential competitive risks to its fossil-fuelled generation plants from future changes in public policy. This could include changes to environmental controls, regulatory regimes, taxes or charges, to meet due diligence requirements and to enhance environmental performance through implementing systems and standards such as ISO 14001.

TA Cogen strives to maintain compliance with all environmental regulations relating to its operations and facilities. If environmental regulations were to change however, the operational impact and the financial viability of all plants would need to be assessed. Outcomes may include, but are not limited to: increased compliance, maintenance, or capital costs; plant impairment charges; or the decommissioning of certain plants.

All TA Cogen facilities undergo compliance and management system integrity audits on a cycle determined by facility performance. On average, this is once every three years.

On Dec. 16, 2002, the Canadian government ratified the Kyoto Protocol. TA Cogen is not able to estimate the full impact the ratification will have on its business, as the government has not yet established an implementation plan.

Weather-Related Business Risks

In early 1998, severe ice storms cut off electricity for weeks to millions of residents in Quebec and Ontario. The nature of the ice storm was particularly severe and widespread. This type of storm, although extremely unusual, is an ongoing risk for electric companies. This risk is mitigated through force majeure clauses in the PPAs and power sales contracts and access to multiple transmission lines.

General Economic Conditions

Changes in general economic conditions impact prices received for non-contracted revenue, operating costs, timing and extent of capital expenditures, the net recoverable value of property, plant and equipment, results of financing efforts, credit risk and counterparty risk.

Legal Contingencies

TA Cogen, through generation and transmission of services and products, is occasionally named as a defendant in various claims and legal action. The nature of these claims is usually related to personal injury, environmental issues and pricing. Exposure to these claims is mitigated through levels of insurance coverage considered appropriate by management. TA Cogen does not expect the outcome of the claims or potential claims to have a materially adverse effect on the company as a whole.

Other Contingencies

TA Cogen maintains a level of insurance coverage deemed appropriate by management and for matters for which insurance coverage can be maintained. There were no significant changes to TA Cogen's insurance coverage during 2002.

Selected Quarterly Financial Information for TransAlta Power

(Unaudited; in millions except per unit amounts)

2002 Quarters (Restated)	First	Second	Third	Fourth	Annual
Revenue	**$ 5.9**	**$ 4.1**	**$ 3.4**	**$ 5.6**	**$ 19.0**
Net income	**5.8**	**4.1**	**3.4**	**5.4**	**18.7**
Distributable cash	**6.3**	**6.2**	**6.4**	**6.5**	**25.4**
Net income per unit	**0.17**	**0.12**	**0.10**	**0.16**	**0.55**
Cash distribution declared per unit	**0.1845**	**0.1845**	**0.1865**	**0.1875**	**0.7430**

2001 Quarters (Restated)	First	Second	Third	Fourth	Annual
Revenue	$ 4.8	$ 2.0	$ 1.8	$ 5.5	$ 14.1
Net income	4.6	2.0	1.7	5.5	13.8
Distributable cash	6.6	4.1	6.7	5.9	23.3
Net income per unit	0.16	0.07	0.06	0.16	0.45
Cash distribution declared per unit	0.23	0.14	0.18	0.1845	0.7345

management's responsibility

In management's opinion, the accompanying financial statements have been properly prepared within reasonable limits of materiality and within the framework of appropriately selected generally accepted accounting principles and policies consistently applied and summarized in the financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to Feb. 1, 2003. Management is responsible for all information in the annual report. Financial operating data in the report are consistent, where applicable, with the financial statements.

Certain management, administrative and other services, including the preparation of financial statements, are provided by TransAlta Energy Corporation (TEC) through a Management Agreement. To meet its responsibility for reliable and accurate financial statements, management relies on TEC's systems of internal control, which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by TEC's internal auditors. In addition, the internai auditors perform appropriate tests and related audit procedures.

The financial statements have been examined by Ernst & Young LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The audit committee of the board of directors is comprised of independent directors. The audit committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the financial statements. The audit committee reports its findings to the board of directors for consideration when approving the financial statements for issuance to the unitholders. The audit committee also recommends, for review and approval by the board of directors, the appointment of the external auditors. The internal and external auditors have full and free access to the audit committee.

Ian A. Bourne
PRESIDENT & DIRECTOR

Marvin J. Waiand
VICE-PRESIDENT, FINANCE

Feb. 1, 2003

auditors' report

To the Unitholders of TransAlta Power, L.P.

We have audited the balance sheets of TransAlta Power, L.P. (TransAlta Power) as at December 31, 2002 and 2001 and the statements of earnings, distributable cash, partners' equity and cash flows for the years then ended. These financial statements are the responsibility of TransAlta Power's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of TransAlta Power as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accounting principles.

Ernst & Young LLP

Chartered Accountants

Calgary, Canada
February 1, 2003

TransAlta Power, L.P. financial statements

balance sheets

AS AT DEC. 31 (IN THOUSANDS)	2002	2001
		(Restated, Note 2)
Assets		
Current assets		
Cash	$ 164	$ 1,123
Distribution receivable from TransAlta Cogeneration, L.P.	2,205	2,117
	2,369	3,240
Investment in TransAlta Cogeneration, L.P. *(Notes 2 & 3)*	262,274	268,924
	$ 264,643	$ 272,164
Liabilities and partners' equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 25	$ 18
Due to TransAlta Energy Corporation *(Note 5)*	14	991
Distributions payable	2,124	2,091
	2,163	3,100
Partners' equity *(Notes 2 & 4)*		
Partnership units	208,231	233,486
Contributed surplus	381	381
Retained earnings	53,868	35,197
	262,480	269,064
	$ 264,643	$ 272,164

Contingency *(Note 5)*

See accompanying notes.

statements of partners' equity

(IN THOUSANDS EXCEPT NUMBER OF UNITS OUTSTANDING)	Number of units outstanding	General partner	Limited partners	Total
				(Restated, Note 2)
Balance, Dec. 31, 2000 as previously reported	29,490,900	$ (3)	$ 244,298	$ 244,295
Restatement of 2000 partners' equity *(Note 2)*	–	–	(2,317)	(2,317)
Balance, Dec. 31, 2000 – Restated	29,490,900	$ (3)	$ 241,981	$ 241,978
Subscriptions *(Note 4)*	4,500,000	–	38,250	38,250
Issue costs *(Note 4)*		–	(2,175)	(2,175)
Redemption of limited partnership units *(Note 4)*	(3,200)	–	(32)	(32)
Contributed surplus *(Note 4)*		–	11	11
Net income		1	13,792	13,793
Distributions declared		(2)	(22,759)	(22,761)
Balance, Dec. 31, 2001	33,987,700	$ (4)	$ 269,068	$ 269,064
Net income		2	18,669	18,671
Distributions declared		(3)	(25,252)	(25,255)
Balance, Dec. 31, 2002	**33,987,700**	**$ (5)**	**$ 262,485**	**$ 262,480**

See accompanying notes.

On behalf of the Board:

T. Iain Ronald
DIRECTOR

Ian A. Bourne
DIRECTOR

statements of earnings

YEAR ENDED DEC. 31 (IN THOUSANDS EXCEPT PER UNIT AMOUNTS)	2002	2001
		(Restated, Note 2)
Revenues		
Equity income from TransAlta Cogeneration, L.P. *(Note 2)*	**$ 19,004**	$ 14,065
Expenses		
Management and administration *(Note 5)*	**287**	272
Interest	**46**	–
	333	272
Net income	**$ 18,671**	$ 13,793
Net income per unit	**$ 0.55**	$ 0.45
Weighted average number of units outstanding	**33,988**	30,634

See accompanying notes.

statements of distributable cash

YEAR ENDED DEC. 31 (IN THOUSANDS EXCEPT PER UNIT AMOUNTS)	2002	2001
		(Restated, Note 2)
Net income	**$ 18,671**	$ 13,793
Deduct: Equity income from TransAlta Cogeneration, L.P.	**(19,004)**	(14,065)
Deduct: Purchase of TransAlta Cogeneration, L.P. units *(Note 4)*	**–**	(35,000)
Add: Distributions from TransAlta Cogeneration, L.P.	**25,654**	22,540
Add: Net proceeds from issuance of partnership units	**–**	36,075
Cash available for distribution	**$ 25,321**	$ 23,343
Cash available for distribution per unit	**$ 0.74**	$ 0.76

See accompanying notes.

statements of cash flows

YEAR ENDED DEC. 31 (IN THOUSANDS)	2002	2001
		(Restated, Note 2)
Operating activities		
Net income	**$ 18,671**	$ 13,793
Equity income from TransAlta Cogeneration, L.P.	**(19,004)**	(14,065)
Change in non-cash operating working capital balances	**(229)**	118
Cash used in operating activities	**(562)**	(154)
Investing activities		
Investment in TransAlta Cogeneration, L.P. *(Note 4)*	**–**	(35,000)
Distributions received from TransAlta Cogeneration, L.P.	**25,566**	26,328
Cash provided by (used in) investing activities	**25,566**	(8,672)
Financing activities		
Net proceeds from issuance of partnership units	**–**	36,075
(Repayment to) advance from TransAlta Energy Corporation	**(741)**	21
Redemption of limited partnership units	**–**	(21)
Distributions to unitholders	**(25,222)**	(26,569)
Cash provided by (used in) financing activities	**(25,963)**	9,506
Increase (decrease) in cash	**(959)**	680
Cash at beginning of year	**1,123**	443
Cash at end of year	**$ 164**	$ 1,123
Cash interest paid	**$ 46**	$ –

See accompanying notes.

TransAlta Power, L.P.
notes to the financial statements

FOR THE YEARS ENDED DEC. 31, 2002 AND 2001 (DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER UNIT AMOUNTS)

1. Description of Business

TransAlta Power, L.P. (TransAlta Power) is a limited partnership formed on Dec. 16, 1997 under the laws of the Province of Ontario pursuant to the TransAlta Power Partnership Agreement. On April 2, 1998, TransAlta Power acquired a 49.99 per cent interest in TransAlta Cogeneration, L.P. (TA Cogen). TransAlta Energy Corporation (TEC) is retained by TransAlta Power to provide certain management, administrative and other services. The remaining 50.01 per cent of TA Cogen is owned by TransAlta Corporation (TAC) through two wholly owned subsidiaries: TEC (50.0 per cent) and TransAlta Cogeneration Ltd. (0.01 per cent).

2. Significant Accounting Policies

A. Change in Accounting Policy

Following a review of critical accounting policies during the fourth quarter of 2002, TA Cogen changed its accounting policy with respect to levelization payments. A levelization agreement was entered into on construction of the Windsor plant and has a life equal to the power purchase agreement. These levelization amounts were recorded in TA Cogen's electrical revenues when received from TEC to levelize the escalating revenue stream resulting from the rate structure in the monthly capacity payment under the terms of the PPA. Commencing the seventh year of the agreement (2003), the levelization payments reverse and TA Cogen begins to repay the levelization payments and interest to TEC.

During the fourth quarter of 2002, TA Cogen determined these levelization payments should be accounted for as a financial liability. The levelization liability bears interest at the Royal Bank of Canada prime rate plus one per cent. The change was applied retroactively, with restatement of prior period. The impact of the change on net income of TransAlta Power for the year ended Dec. 31, 2002 was a reduction of $328. The impact of the change on the prior period financial statements of TransAlta Power is detailed below:

Year ended Dec. 31, 2001	Reported	Adjustment	Restated
Balance Sheet			
Investment in TransAlta Cogeneration, L.P.	$ 271,795	$ (2,871)	$ 268,924
Partners' equity	271,935	(2,871)	269,064
Statement of Earnings			
Revenues	$ 14,619	$ (554)	$ 14,065
Net income	14,347	(554)	13,793

B. Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

C. Investment in TA Cogen

The investment in TA Cogen is accounted for using the equity method, whereby TransAlta Power's share of TA Cogen's earnings is included in TransAlta Power's earnings and increases its investment. Distributions by TA Cogen decrease TransAlta Power's investment in TA Cogen.

D. Revenue Recognition

Revenue consists of equity income from TA Cogen. TransAlta Power recognizes its 49.99 per cent share as income is recognized as earned by TA Cogen. TA Cogen recognizes revenue based on its stated policy.

E. Income Taxes

Income taxes are the responsibility of the individual partners and accordingly are not reflected in these financial statements.

F. Distributable Cash

Distributable cash is the amount by which TransAlta Power's cash on hand or to be received in respect of that period exceeds: (i) any unpaid administration expenses; (ii) amounts required for the business and operations (including fees and expenses payable to TEC under the Management Agreement *(Note 5)* and pursuing growth opportunities); and (iii) any cash reserve which the board of directors in its discretion determines is necessary to satisfy the current and anticipated obligations and liabilities and to comply with applicable laws.

Distributable cash and cash available for distribution per unit should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with Canadian GAAP as an indicator of TransAlta Power's performance or liquidity. Distributable cash and cash available for distribution per unit are calculated from net income in TransAlta Power's financial statements, and are provided as an indication of cash available for distribution to unitholders.

G. Financial Instruments

The carrying amounts of TransAlta Power's financial assets and financial liabilities approximate their fair values.

3. Investment in TA Cogen

TAC has the obligation to purchase all of TransAlta Power's interest in TA Cogen on Dec. 31, 2018 at the then fair market value.

4. Partners' Equity

TransAlta Power is authorized to issue an unlimited number of partnership units. During 2000, TransAlta Power implemented a normal course issuer bid (NCIB) to repurchase a maximum of 2,960,000 units in the period April 5, 2000 to April 4, 2001 for maximum consideration of $18,000. TAC provided financing for up to $2,900 on a short-term basis at a rate of Bankers Acceptance plus 1.25 per cent. 112,300 units were repurchased under the 2000 NCIB for consideration of $741. The difference between the amount paid to repurchase these units and their average carrying value has been recorded as contributed surplus in the accompanying statements of partners' equity.

On April 12, 2001, TransAlta Power implemented a new NCIB for the purchase of a maximum of 2,946,395 units up to April 12, 2002. During 2001 and 2002, no units were repurchased.

On April 12, 2002, TransAlta Power implemented a new NCIB under which a maximum of 350,000 units may be repurchased up to April 11, 2003. During 2002, no units were repurchased.

During 2001, TransAlta Power issued 4,500,000 limited partnership units at $8.50 per unit, resulting in net proceeds, after deducting issuance fees and expenses, of $36,075. TransAlta Power used $35,000 of the net proceeds to subscribe for limited partnership units of TA Cogen.

5. Contingent Management Fees

TEC provides management services to TransAlta Power under the terms and conditions set out in a management agreement. Management fees include a fixed component as well as a variable component calculated with reference to TransAlta Power's cash flows and distributable cash per unit. The exchange amounts are estimated based on rates which approximate cost. The exchange amounts were negotiated by TEC and TransAlta Power, and approved by the board of directors of TransAlta Power.

Commencing Jan. 1, 2000, management fees are payable in a particular year only to the extent that, after payment of the fee, the annual distribution to unitholders of TransAlta Power exceeds $0.75 per unit. Any unpaid fees are accounted for as a contingent liability and, accordingly, are recorded as a payable to TEC only when it is likely that amounts available for annual distributions to unitholders of TransAlta Power in future years will exceed $0.75 per unit to allow payment of fees deferred from prior years. No fees were recorded in 2002 or 2001 and no fees were recorded as payable, since given the circumstances at the balance sheet dates, it is currently unlikely that future annual distribution to unitholders of TransAlta Power will exceed $0.75 per unit. Total unpaid contingent management fees at Dec. 31, 2002 were $909 (2001 – $639).

6. Income Taxes

The reported amount of TransAlta Power's investment in TA Cogen as at Dec. 31, 2002 exceeds the tax base by $39,068 (2001 – $24,032). The reported amount of TransAlta Power's issuance costs as at Dec. 31, 2002 exceeds the tax base by $17,246 (2001 – $13,411).

management's responsibility

In management's opinion, the accompanying consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of appropriately selected generally accepted accounting principles and policies consistently applied and summarized in the consolidated financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to Feb 1, 2003. Management is responsible for all information in the annual report. Financial operating data in the report are consistent, where applicable, with the consolidated financial statements.

Certain management, administrative and other services, including the preparation of the consolidated financial statements, are provided by TransAlta Energy Corporation (TEC) through management services agreements. To meet its responsibility for reliable and accurate consolidated financial statements, management relies on TEC's systems of internal control, which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by management and by TEC's internal auditors. In addition, the internal auditors perform appropriate tests and related audit procedures.

The consolidated financial statements have been examined by Ernst & Young LLP, independent chartered accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's consolidated financial statements. The auditors' report outlines the scope of their examination and sets forth their opinion.

The audit committee of the board of directors is comprised of independent directors. The audit committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements. The audit committee reports its findings to the board of directors for consideration when approving the consolidated financial statements for issuance to the unitholders. The audit committee also recommends, for review by the board of directors and approval of unitholders, the appointment of the external auditors. The internal and external auditors have full and free access to audit committee.

James W. Kemp
PRESIDENT & DIRECTOR

Garth A. Wong
VICE-PRESIDENT, FINANCE

Feb. 1, 2003

auditors' report

To the Unitholders of TransAlta Cogeneration, L.P.

We have audited the consolidated balance sheets of TransAlta Cogeneration, L.P. (TA Cogen) as at December 31, 2002 and 2001 and the consolidated statements of earnings, distributable cash, partners' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of TA Cogen's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of TA Cogen as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Calgary, Canada
February 1, 2003

TransAlta Cogeneration, L.P. consolidated financial statements

consolidated balance sheets

AS AT DEC. 31 (IN THOUSANDS)	2002	2001
		(Restated, Note 2)
Assets		
Current assets		
Cash	**$ 232**	$ 1,969
Accounts receivable *(Note 12)*	**30,424**	28,506
Prepaid expenses	**1,008**	1,039
Materials and supplies	**324**	325
	31,988	31,839
Long-term receivable *(Note 3)*	**847**	–
Power plants, net *(Notes 4, 5 & 6)*	**585,663**	609,399
	$ 618,498	$ 641,238
Liabilities and partners' equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 5,793**	$ 9,757
Distributions payable	**4,410**	4,235
Due to TransAlta Energy Corporation *(Notes 7, 9 & 10)*	**15,327**	18,394
Current portion of long-term debt *(Note 6)*	**3,395**	3,157
	28,925	35,543
Due to TransAlta Energy Corporation *(Notes 2 & 9)*	**6,317**	5,741
Long-term debt *(Note 6)*	**58,672**	62,067
Partners' equity *(Notes 2 & 8)*		
Partnership units	**413,618**	464,936
Retained earnings	**110,966**	72,951
	524,584	537,887
	$ 618,498	$ 641,238

Contingency *(Note 10)*

See accompanying notes.

consolidated statements of partners' equity

(IN THOUSANDS EXCEPT NUMBER OF UNITS OUTSTANDING)	Number of units outstanding	General partner	Limited partners	Total
				(Restated, Note 2)
Balance, Dec. 31, 2000 as previously reported	55,805,581	$ (6)	$ 489,482	$ 489,476
Restatement of 2000 partners' equity *(Note 2)*	–	–	(4,635)	(4,635)
Balance, Dec. 31, 2000 – Restated	55,805,581	$ (6)	$ 484,847	$ 484,841
Subscriptions *(Note 4)*	8,104,760	–	70,000	70,000
Net income		2	28,134	28,136
Distributions declared		(4)	(45,086)	(45,090)
Balance, Dec. 31, 2001	63,910,341	$ (8)	$ 537,895	$ 537,887
Net income		4	38,011	38,015
Distributions declared		(5)	(51,313)	(51,318)
Balance, Dec. 31, 2002	**63,910,341**	**$ (9)**	**$ 524,593**	**$ 524,584**

See accompanying notes.

On behalf of the Board:

T. Iain Ronald
DIRECTOR

Ian A. Bourne
DIRECTOR

consolidated statements of earnings

YEAR ENDED DEC. 31 (IN THOUSANDS)	2002	2001
		(Restated, Note 2)
Revenues		
Electrical	$ 94,608	$ 92,556
Capacity	49,688	42,875
Thermal and other	10,175	8,716
	154,471	144,147
Operating expenses		
Cost of gas	67,971	71,533
Depreciation	27,548	25,625
Operating and maintenance *(Note 10)*	16,082	13,543
	111,601	110,701
Operating income	42,870	33,446
Net interest expense *(Notes 2, 6, 7, 9 & 12)*	(4,855)	(5,310)
Net income	$ 38,015	$ 28,136

See accompanying notes.

consolidated statements of distributable cash

YEAR ENDED DEC. 31 (IN THOUSANDS)	2002	2001
		(Restated, Note 2)
Net income	$ 38,015	$ 28,136
Add: Depreciation	27,548	25,625
Add: Levelization advance from TransAlta Energy Corporation *(Note 2)*	657	1,106
Deduct: Repayment of long-term debt principal	(3,157)	(2,935)
Deduct: Maintenance reserve	(5,520)	(5,316)
Cash available for distribution	$ 57,543	$ 46,616

See accompanying notes.

consolidated statements of cash flows

YEAR ENDED DEC. 31 (IN THOUSANDS)	2002	2001
		(Restated, Note 2)
Operating activities		
Net income	$ 38,015	$ 28,136
Depreciation	27,548	25,625
Non-cash interest expense *(Note 2)*	315	357
	65,878	54,118
Change in non-cash operating working capital balances	(7,760)	3,909
Cash provided by operating activities	58,118	58,027
Investing activities		
Additions to power plants	(8,792)	(35,897)
Disposal of assets	1,034	–
Recovery of maintenance capital expenditures *(Note 3)*	1,861	–
Cash used in investing activities	(5,897)	(35,897)
Financing activities		
Proceeds from issuance of partnership units	–	35,000
Distributions to unitholders	(51,143)	(52,667)
Levelization advance from TransAlta Energy Corporation	342	749
Repayment of long-term debt principal	(3,157)	(2,935)
Cash used in financing activities	(53,958)	(19,853)
Increase (decrease) in cash	(1,737)	2,277
Cash (bank overdraft) at beginning of year	1,969	(308)
Cash at end of year	$ 232	$ 1,969
Cash interest paid	$ 4,693	$ 5,029

See accompanying notes.

TransAlta Cogeneration, L.P. notes to the consolidated financial statements

FOR THE YEARS ENDED DEC. 31, 2002 AND 2001 (DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER UNIT AMOUNTS)

1. Description of Business

TransAlta Cogeneration, L.P. (TA Cogen) is a limited partnership formed on Dec. 16, 1997 under the laws of the Province of Ontario pursuant to the TA Cogen Partnership Agreement. On April 1, 1998, TA Cogen acquired the Mississauga, Ottawa and Windsor power plant assets of TransAlta Energy Corporation (TEC). On Sept. 30, 2001, TA Cogen acquired a 60 per cent interest in the Fort Saskatchewan power plant assets from a wholly owned subsidiary of TEC. TransAlta Corporation (TAC) owns 50.01 per cent of TA Cogen through two wholly owned subsidiaries: TEC and TransAlta Cogeneration Ltd. TransAlta Power, L.P. (TransAlta Power) owns the remaining 49.99 per cent. TEC is retained by TA Cogen to operate and maintain the power plants and to provide certain management, administrative and other services.

2. Summary of Significant Accounting Policies

A. Basis of Presentation

The consolidated financial statements include the accounts of TA Cogen and its proportionate share of the Fort Saskatchewan joint venture.

B. Change in Accounting Policy

Following a review of critical accounting policies during the fourth quarter of 2002, TA Cogen changed its accounting policy with respect to levelization payments. A levelization agreement was entered into on construction of the Windsor plant and has a life equal to the power purchase agreement (PPA). These levelization amounts were recorded in TA Cogen's electrical revenues when received from TEC to levelize the escalating revenue stream resulting from the rate structure in the monthly capacity payment under the terms of the PPA. Commencing the seventh year of the agreement (2003), the levelization payments reverse and TA Cogen begins to repay the levelization payments and interest to TEC.

During the fourth quarter of 2002, TA Cogen determined these levelization payments should be accounted for as a financial liability. The levelization liability bears interest at the Royal Bank of Canada prime rate plus one per cent. This change in accounting policy has been accounted for retroactively, with restatement of prior periods' financial results. Net income for the year ended Dec. 31, 2002 was reduced by $657. The impact on the prior period financial statements is detailed below:

Year ended Dec. 31, 2001	Reported	Adjustment	Restated
Balance sheet			
Due to TransAlta Energy Corporation, long term	$ –	$ 5,741	$ 5,741
Partners' equity	543,628	(5,741)	537,887
Statement of earnings			
Revenues	$ 144,896	$ (749)	$ 144,147
Interest expense	4,953	357	5,310
Net income	29,242	(1,106)	28,136
Statement of cash flows			
Cash provided by operating activities	$ 58,776	$ (749)	$ 58,027
Cash used in financing activities	(20,602)	749	(19,853)

C. Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

D. Materials and Supplies

TA Cogen's materials and supplies balance includes replacement parts, which will be used within one year, and operating supplies, recorded at the lower of cost and market.

E. Power Plants

The power plants are carried at cost and are depreciated on a unit-of-production basis over the life of the plants. Certain expenditures relating to components incurred during major maintenance are capitalized and amortized over the estimated benefit period of such expenditures, ranging from three to six years. A component is a tangible portion of an asset that can be separately identified as an asset and depreciated over its own expected useful life, and is expected to provide a benefit greater than one year.

No provision for future site restoration is recorded as management currently estimates the costs of restoration will be offset by the salvage values of the related plants.

The Canadian Institute of Chartered Accountants (CICA) has approved a new standard on asset retirement obligations, effective for fiscal years beginning on or after Jan. 1, 2004, with earlier adoption encouraged. The new rules require the recognition of an asset retirement obligation at fair value when incurred, unless the fair value cannot be reasonably determined. When the liability is recognized, a corresponding asset retirement cost is added to the carrying amount of the related asset, and is depreciated over the estimated useful life of the related asset. Accretion of the liability due to the passage of time is an operating expense. The impact on TA Cogen has not been finalized.

F. Revenue Recognition

The majority of TA Cogen's revenues are derived from the sale of electricity to Ontario Electricity Financial Corporation (OEFC) and Dow Chemical Canada Inc. (Dow Chemical). Revenues under long-term power sales contracts are comprised of capacity payments for plant availability and energy payments for generation of electricity. Capacity revenues are recognized when contractually earned, as specified by contractual terms. Electrical energy revenue is recognized upon transmission to the customer. Curtailment revenue is recognized when physical curtailment of plant output occurs pursuant to the fixed-for-floating gas swap transaction with TEC *(Note 12(B))*. Thermal revenue for steam sales is recognized upon delivery to the customer.

G. Income Taxes

Income taxes are the responsibility of the individual partners and accordingly are not reflected in these financial statements.

H. Levelization Payments

Pursuant to an agreement dated April 2, 1998, TA Cogen receives levelization payments in respect of the Windsor plant from TEC, as described in *Note 2(B)*. These amounts are recorded as a future repayment obligation to TEC. The levelization agreement was entered into on the construction of the plant and has a life equal to the PPA.

I. Distributable Cash

Distributable cash is the amount by which TA Cogen's cash on hand or to be received in respect of that period exceeds: (i) any unpaid administration expenses of TA Cogen; (ii) amounts required for the business and operations of the power plants (including fees and expenses payable to TEC under the operating and maintenance agreements *(Note 10)*; and (iii) any cash reserve which the board of directors of the TA Cogen general partner in its discretion determines is necessary to satisfy TA Cogen's current and anticipated obligations and liabilities, including the repayment of long-term debt and an annual reserve for estimated major maintenance expenditures and to comply with applicable laws.

Cash available for distribution should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with Canadian GAAP as an indicator of TA Cogen's performance or liquidity. Cash available for distribution is calculated from net income in TA Cogen's financial statements, and is provided as an indication of cash available for distribution to unitholders.

J. Financial Instruments

The estimated fair value of long-term debt is determined with reference to market prices for similar issues *(Note 12(A))*. The carrying amounts of other balance sheet financial assets and financial liabilities approximate their fair values.

Fixed-price contracts and swaps are used to hedge TA Cogen's exposure to fluctuations in commodity and transportation costs. Under Canadian GAAP, gains and losses are deferred and recognized in earnings in the same period and financial statement caption as the hedged exposure (settlement accounting). The derivatives are not recorded on the balance sheet.

Contracts for the physical delivery or supply of electricity and gas at fixed pricing terms are not considered to be derivatives and are accounted for on a settlement basis.

3. Long-Term Receivable

The long-term receivable is due from Dow Chemical for maintenance capital expenditures. Under the terms of the utility services agreement with Dow Chemical, maintenance costs are recoverable from them up to certain contractual limits. It is non-interest bearing and is due in 2005. During 2002, TA Cogen received $1,861 from Dow Chemical with respect to maintenance capital expenditures incurred in 2000 and 2001.

4. Acquisition and Investment

Effective Sept. 30, 2001, TA Cogen acquired a 60 per cent interest in the 118 MW Fort Saskatchewan plant from a wholly owned subsidiary of TransAlta Energy Corporation. Consideration was comprised of $35,000 of TA Cogen partnership units and a $35,000 promissory note. TA Cogen issued $35,000 of partnership units to TransAlta Power, L.P. The total purchase price of $70,000 was allocated to property, plant and equipment.

On June 30, 2017, TEC has the option to purchase the Fort Saskatchewan plant from TA Cogen at the then fair market value as determined by independent valuators. On July 31, 2017, if TEC does not exercise the option, TA Cogen has the option to sell the Fort Saskatchewan plant to TEC at a price equal to the book value. If neither option is exercised, TA Cogen is obligated, at TEC's expense, to use reasonable commercial efforts to sell the Fort Saskatchewan plant on or before Dec. 18, 2018.

TA Cogen's interest in the jointly controlled Fort Saskatchewan plant is accounted for as a joint venture and accordingly reflects only TA Cogen's proportionate interest in the related assets, liabilities, revenues and expenses.

5. Power Plants

	2002	2001
Cost	**$ 723,677**	$ 719,865
Accumulated depreciation	**(138,014)**	(110,466)
Net book value	**$ 585,663**	$ 609,399

6. Long-Term Debt

Long-term debt is comprised of notes payable, which bear interest at a fixed rate of 7.4 per cent and mature on Nov. 30, 2014. Interest expense incurred was $4,656 (2001 – $4,905). First fixed and floating charges and a mortgage on the Windsor power plant assets, a single letter of credit issued by TEC having a face amount of $3,953, as well as a standby letter of credit issued by TAC have been provided as security.

Principal payments over each of the next five years and thereafter are as follows:

2003	$ 3,395
2004	3,651
2005	3,926
2006	4,223
2007	4,542
Thereafter	42,330
	$ 62,067

7. TEC Facility

TA Cogen maintains a $20,000 borrowing facility with TEC, which bears interest at the Bankers Acceptance rate plus 1.25 per cent. The balance outstanding as at Dec. 31, 2002 was $11,900 (2001 – $17,500), with interest related expense incurred of $58 (2001 – $106). The effective interest rate on this facility in 2002 was 3.7 per cent (2001 – 4.5 per cent).

8. Partners' Equity

TA Cogen is authorized to issue an unlimited number of units. Each unit represents an equal undivided limited partnership interest, entitles the holder to participate equally in distributions, and is not subject to future calls or assessments.

9. Levelization Repayment Obligation

As at Dec. 31, 2002, the future repayment obligation amounts to $6,398 (2000 – $5,741), which includes interest in the amount of $1,192 (2001 – $878). Interest accrues based on the Royal Bank of Canada prime rate plus one per cent. The effective interest rate in 2002 was 5.2 per cent (2001 – 6.9 per cent).

Estimated repayments, including accrued interest, in each of the next five years and thereafter are as follows:

2003	$ 81
2004	530
2005	972
2006	1,794
2007	2,672
Thereafter	3,083
	$ 9,132

10. Contingent Management Fees

TEC operates the power plant assets and provides management services to TA Cogen under an operating and maintenance agreement. The amounts charged by TEC as reimbursement of operating and maintenance costs incurred on behalf of TA Cogen were $5,079 for the year ended Dec. 31, 2002 (2001 – $3,810). These transactions have been recorded at their exchange amounts, are unsecured, non-interest bearing and have no fixed repayment terms. The exchange amounts are estimated based on rates which approximate cost. The exchange amounts were negotiated by TEC and TA Cogen, and approved by the board of directors of TA Cogen.

Commencing Jan. 1, 2000, management and administrative fees are payable in a particular year only to the extent that, after payment of the fee, the annual distribution to unitholders of TransAlta Power exceeds $0.75 per unit. Any unpaid fees are accounted for as a contingent liability and, accordingly, are recorded as a payable to TEC only when it is likely that amounts available for annual distributions to unitholders of TransAlta Power in future years will be greater than $0.75 per unit to allow payment of fees deferred from prior years. No fees were recorded in 2002 or 2001 and no fees were recorded as payable, since given the circumstances at the balance sheet dates it is currently unlikely that future annual distributions to unitholders of TransAlta Power will exceed $0.75 per unit. Total unpaid contingent management fees at the year ended Dec. 31, 2002 were $5,138 (2001 – $2,909).

11. Income Taxes

The reported amounts of TA Cogen's assets and liabilities as at Dec. 31, 2002 exceed the tax base by $405,231 (2001 – $374,964).

12. Financial Risk Management

A. Interest Rate Risk Management

TA Cogen has fixed the rates on long-term debt through fixed-rate borrowings. The fair value of TA Cogen's long-term debt changes as interest rates change and the fair value of the liability as at Dec. 31, 2002 was $62,377 (2001 – $66,659).

B. Energy Commodities Price Risk Management

Sales prices for electrical and thermal revenues, gas purchase prices and gas transportation costs are generally fixed through long-term contracts. Selling prices for electrical and thermal revenues are fixed under the terms of the contracts and include price adjustment clauses. As a result, TA Cogen is not subject to fluctuations in market prices of these commodities. These contracts range from 2008 to 2019. The cost of gas transportation is subject to rate regulation.

For the period November 2002 to November 2007, TA Cogen entered into a transportation swap agreement with a wholly owned subsidiary of TEC. The business purpose of the transportation swap was to provide TA Cogen with a fixed gas delivery price for two of its plants, without being exposed to escalating costs of pipeline transportation, over the period of the swap in order to stabilize cash distributions in TA Cogen. The notional gas volume in the transaction was the total delivered fuel for both facilities. These transactions have been recorded at the exchange amount.

In November 2000, TA Cogen entered into a fixed-for-floating gas swap agreement with TEC for a 61-month period starting Dec. 1, 2000. The swap transaction provided TA Cogen with fixed prices for gas, with escalation, for both the Mississauga and Ottawa plants during each year of the agreement. The floating prices associated with the Mississauga and Ottawa plants' long-term fuel supply agreements were transferred to TEC's account. For the year ended Dec. 31, 2002, payments by TEC under the swap transaction totalled $13,155 (2001 – $11,520). The notional gas volume in the transaction was the total delivered fuel for both facilities. As consideration, TEC was granted the right to incremental revenues associated with curtailed electrical production during off-peak hours and subsequent higher revenue gas sales. In 2001, TA Cogen received $3.7 million from TEC for curtailed electrical production in exchange for gas sales. In the case of curtailment during on-peak hours, TA Cogen will earn the incremental revenues from the curtailment less a 35 per cent management fee. Curtailment occurs when gas is sold on the spot market in lieu of generating electricity, and generally occurs during off-peak periods when it is more economical to sell gas than produce electricity. These transactions have been recorded at the exchange amount.

C. Credit Risk

Accounts receivable includes $26,146 due from OEFC (2001 – $25,363) and $1,416 due from Dow Chemical (2001 – $1,617). These receivables represent 86 per cent (2001 – 89 per cent) and 5 per cent (2001 – 6 per cent), respectively, of total accounts receivable. Revenue from OEFC represented 88 per cent of total revenue in 2001 (2002 – 93 per cent). Revenue from Dow Chemical represented 6 per cent of total revenue in 2002 (2001 – 2 per cent).

13. Joint Ventures

Summarized information on the results of operations, financial position and cash flows relating to TA Cogen's pro-rata interest in the jointly controlled Fort Saskatchewan plant as at, and for the years ended Dec. 31, 2002 and 2001, was as follows:

	2002	2001*
Results of operations		
Revenues	**$ 9,935**	$ 2,749
Expenses	**896**	300
Proportionate share of earnings	**$ 9,039**	$ 2,449
Financial position		
Current assets	**$ 2,004**	$ 1,967
Long-term assets	**59,858**	60,771
Current liabilities	**(158)**	(207)
Proportionate share of net assets	**$ 61,704**	$ 62,531
Cash flows		
Operating activities	**$ 9,363**	$ 714
Investing activities	**742**	(25)
Financing activities	**(9,866)**	(2,202)
Increase (decrease) in cash	**$ 239**	$ (1,513)

* *For the period of October 1 to December 31.*

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Stability Rating
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Important Distribution Dates

PAYMENT DATE	RECORD DATE	EX-DIVIDEND DATE
April 30, 2003	March 31, 2003	March 27, 2003
May 31, 2003	April 30, 2003	April 28, 2003
June 30, 2003	May 31, 2003	May 28, 2003
July 31, 2003	June 30, 2003	June 26, 2003
Aug. 31, 2003	July 31, 2003	July 29, 2003
Sept. 30, 2003	Aug. 31, 2003	Aug. 27, 2003
Oct. 31, 2003	Sept. 30, 2003	Sept. 26, 2003
Nov. 30, 2003	Oct. 31, 2003	Oct. 29, 2003
Dec. 31, 2003	Nov. 30, 2003	Nov. 26, 2003
Jan. 31, 2004	Dec. 31, 2003	Dec. 29, 2003
Feb. 29, 2004	Jan. 31, 2004	Jan. 28, 2004
March 31, 2004	Feb. 29, 2004	Feb. 25, 2004

Cash distributions are paid at the end of every month. When a distribution payment date falls on a weekend or holiday the payment is made the previous business day.

TransAlta Power Ltd., General Partner of TransAlta Power, L.P.:

Directors
Ian A. Bourne
Jan Carr
Terence Dalgleish
Randall J. Findlay
James W. Kemp
Iain A. Ronald (Chair)

Officers
Ian A. Bourne
PRESIDENT
Marvin J. Waiand
VICE-PRESIDENT, FINANCE
Alison T. Love
SECRETARY

2002 Changes
In 2002, Rodger D. Conner resigned as an officer and Alison T. Love was appointed an officer.

Production DaSilva Graphics
Project Management Joan Moss

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TransAlta™

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